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SUBJECT: Promoting France's Competitiveness in the Health Industry

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¶1. (U) Summary. President Sarkozy plans to make France the priority destination for foreign investment in medical research, with the healthcare industry becoming "a centerpiece of French competitiveness" on par with France's aerospace and luxury goods sectors. With new investment funds, business-friendly policy changes, and a clear invitation to major U.S. companies, France is hoping the health industry becomes an engine of economic recovery. This initiative focused on the health industry is a good example of how France under Sarkozy carries out industrial policy. Through tax breaks and other measures, France is successfully attracting R&D activity in key sectors, although regulatory issues, e.g. restrictions on agricultural biotech and price controls on pharmaceuticals continue, may give potential investors cause for concern. End Summary.

The New And Improved Strategic Council For Health Industries (CSIS)

¶2. (U) To launch his new plan to attract foreign investment to the healthcare industry, President Sarkozy invited 15 CEOs of major U.S. and other foreign pharmaceutical and medical device companies to take part in a meeting of the Strategic Council for Health Industries (CSIS), a council created by Jacques Chirac in 2004, but which had not met for three years. Five ministers (Economy Minister Christine Lagarde, Budget Minister Woerth, Health Minister Bachelot, Industry Minister Estrosi, and Research Minister Pecresse) took part in small roundtables, along with the President himself. Sarkozy called the meeting step one in ensuring that the health sector becomes an engine of economic recovery.

¶3. (SBU) Reinvigorating CSIS is step two: Sarkozy appointed a new CSIS Chair, Thierry Tuot, an anti-trust specialist who has worked on promoting competition in the French electricity market and more recently on the Grenelle Summit for the Environment. Tuot will work with the LEEM (Les Entreprises du Medicament) which represents all the major French and foreign pharmaceutical companies, and France Biotech, France's professional association for French life science companies, which developed many of the proposals put forward by Sarkozy. (Note: These proposals were, in turn, based on a recent R&D survey of France by a Paris and New York-based health care consultancy, AEC Partners, which boasts as one of its senior partners the President's brother, Francois Sarkozy. End note.) The CSIS will be institutionalized, with a permanent Secretariat to be established in 2010.

Help Wanted: U.S. Investors Need Apply

¶4. (SBU) President Sarkozy's office made a direct pitch to U.S. companies in particular, pushing back the date of the meeting to accommodate the three American CEOs of Lilly, Pfizer, and Becton-Dickinson, and placing the Lilly CEO face-to-face with Sarkozy in a roundtable. The three companies told post that the meeting was a great success, and that they welcomed some significant

policy gestures the French government made during the session. For example, the government announced it will begin to allow pharmaceutical companies to charge two prices for drugs: one fixed price for drugs reimbursed by government health services and an unregulated price for non-reimbursable drugs and/or exports. This pricing strategy would prevent parallel imports that undercut market strategy and sales in export markets, a key issue for U.S. firms.

Why the Plan Is Necessary: Strong Pharmaceutical Industry But Biotech Lags

15. (SBU) France is Europe's leading drugs manufacturer and the world's third largest pharmaceutical exporter behind Germany and the United States. With over 200 manufacturing sites throughout France, the industry employs over 300,000 people, directly or indirectly. (Comment: Ireland is rapidly gaining on France; an Abbott labs contact said Ireland has a better environment for investment, a good English-speaking labor force and excellent transportation links. While President Sarkozy boasted of France's dominance in the pharmaceutical sector, the new plan is meant to keep France ahead of the European competition. End note)

16. (U) France is less competitive in biotech. There are about 400 biotechnology companies in France, employing roughly 20,000 people, and half of all new drugs produced in France are biodrugs. However, no French biotech company is among the world's top ten, and biotech investment in France is falling rapidly. France Biotech, France's professional association for French life science companies, reports a major drop in equity investments in French biotech companies: funding fell by 79 percent between 2007 and 2008 (143 million euros (USD 210 million) in 2008 versus 694 euros (USD 950 million in 2007). As a result, France Biotech is lobbying the government to get its share of public funding for its life science projects and fast-growing companies as part of the proposed "grand emprunt," or special debt offering for strategic technologies and sectors.

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New Funding and an NIH-style Research Arm

17. (U) Sarkozy's technical adviser on health issues, Raphael Radanne, told post that while France has skilled engineers and expertise in chemistry and biology, links between public research and private companies need to be strengthened. To that end, Sarkozy and the CEOs signed an agreement for a newly-established 140 million euro (USD 208 million) investment fund for innovative firms in the medical biotech sector. The fund will be co-financed by the GOF's Strategic Investment fund (FSI). Companies further committed to invest 62.5 million euros (USD 93 million) through 2012 via public-private research partnerships largely modeled on U.S.-style agreements between universities and the private sector. To facilitate these partnerships, France's eight public research bodies will be merged into one NIH-like entity over the next three years. Sarkozy's special debt offering will also likely carve out funds for the pharmaceutical and medical device industries.

Keeping Counterfeit Drugs Out, and French Jobs In

18. (U) Sarkozy's plan will also beef up France's anti-counterfeiting strategy by mandating that there be counterfeiting specialists in all pharmaceutical companies capable of providing information in real time, and over the internet, to authorities at ports and airports. In 2008, French customs seized 880,000 counterfeit drugs, a 41 percent increase over the previous year. To discourage pharmaceutical companies from manufacturing generic drugs in low-cost countries like China, India and Brazil, which could siphon off 5,000 French jobs, Sarkozy's plan will allow them to produce generics in France a few weeks before patents expire so that products can be ready for sale as soon as the patent ends. In France, the generic market now represents 20 percent of the drug market, compared to four percent in 2004. France has been promoting generic drugs as part of overall healthcare reforms.

Comment:

19. (SBU) This initiative focused on health care offers a good example of France's approach to industrial strategy. Incentives such as tax breaks for companies engaging in R&D activities have successfully attracted investment to France in key sectors. However, regulatory issues remain an obstacle. Despite the government's gesture on pharmaceutical pricing, it is not yet clear that pharmaceutical firms carrying out R&D in France will be able to recover their R&D costs in the French market. In biotech, France continues to make a distinction between pharmaceutical biotech, which it favors, and agricultural biotech, the development of which has become virtually impossible in France. Similar regulatory obstacles might emerge in the nano-technology industry as well.

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